Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Application by Verizon for Authorization	)	
Under Section 271 of the Communications	)	
Act to Provide In-Region, InterLATA	)	WC Docket No. 02-214
Services in the State of Virginia	)	
	)	

DECLARATION OF CHRIS FRENTRUP
ON BEHALF OF WORLDCOM, INC.

Based on my personal knowledge and on information learned in the course of my duties, I, Chris Frentrup, declare as follows:

I. INTRODUCTION AND SUMMARY

1. My name is Chris Frentrup. I am employed by WorldCom, Inc. ("WorldCom") as a Senior Economist in the Federal Advocacy organization. In that position, I am responsible for analyzing economic issues relating to telecommunications industry regulation and public policy, and assisting in the development and advocacy of WorldCom's public policy positions. I have participated in the development and advocacy of the HAI Model, a model used in the estimation of telecommunications network costs. I have also worked extensively on the assessment of local exchange carrier productivity in the Commission's price cap proceedings.

2. The purpose of my Declaration is to demonstrate that Verizon's current unbundled network element ("UNE") rates for switching in Virginia are not based on total element long run incremental cost ("TELRIC"). A substantial portion of the switch usage rate reflects the cost of vertical features. Those costs are explained nowhere in Verizon's filing.

Because they are so much higher than the usage costs of switching, and because they appear to assume that all 26 features that are available will be used on every line, they are clearly above TELRIC levels.

II. VERIZON'S SWITCH USAGE RATES INAPPROPORIATELY INCLUDE FEATURES COSTS

3. Verizon's switch usage rates are the sum of the direct and shared costs of two main components. The first component is the costs of the usage itself. These costs include the switch processor, the associated software, and all other portions of the switch except the line ports, the costs of which are recovered in a separate port charge. The second component is the cost for vertical features, such as Caller ID and Call Forwarding. The costs associated with these features are primarily the additional software in the switch that controls these features, although there is some additional hardware associated with a few of the features.

4. The Virginia Commission required Verizon to include the costs of all features in its switch usage rates. In fact, since the features costs are primarily for the software that enables the features, they are not appropriately included in traffic sensitive charges at all. To the extent they are not already included in the base cost of the switch, any features costs should be recovered in a per line charge such as the port, not in the per minute switch usage rates.

III. VERIZON'S FEATURES COSTS ARE ABOVE TELRIC AND NOT ADEQUATELY SUPPORTED

5. In addition to improperly recovering features costs in usage charges, Verizon has failed to demonstrate that its features costs are based on TELRIC. First, Verizon nowhere provides the studies that it used to develop the feature costs. The only documentation of the costs are included in a spreadsheet provided electronically, in which the cell that reports the features cost refers to a cell in another spreadsheet not provided by Verizon.[1] Those costs are then added to the usage costs in a separate workbook to develop the total switch usage rate.[2]

6. Without the underlying study that develops these costs, I am unable to confirm how these costs were developed. However, that these costs are excessive is clear from a comparison of the very high features costs to the usage cost of the switch. Even though the features cost of the switch should reflect primarily only additional software costs, the features costs are fully *** *** of the originating usage rate and *** *** of the terminating usage rate. The usage portion of the costs already reflects the main hardware of the switch; it is simply not credible that features costs could be such a high portion of the cost of the switch.[3]

1 The Excel workbook that contains the vertical features cost is VATR_SCC-G.XLS, which was provided in Appendix G Tab 003 in the SWITCHING sub-directory. The features costs are displayed in Sheet 2 of that workbook in cells D9 through F10. That cell refers to another workbook, VA-VS-G.XLS, which is not provided.
2 This Excel workbook, UsageG.XLS, was also provided in Appendix G Tab 003 in the SWITCHING sub-directory. The features costs are displayed in Sheet 2.0 RESULTS SUMMARY-MOU W IMPL of that workbook in cells G40 through I40 and G52 through I52.
3 It is also astonishing that the shared costs of the features are nearly *** *** the direct costs on the originating side, but only about *** *** the direct cost on the terminating side. Verizon does not explain what these shared costs are, nor why they differ so markedly between originating and terminating.

7. Since Verizon provides no documentation of its feature costs, it is unclear why the costs are so high. The features costs likely suffer from the same flaw as all switching costs, in that the switch prices used in the cost model reflect 54 percent new switches and 46 percent growth switches. In addition, Verizon has not revealed what demand assumptions it used to determine the features costs, nor how that assumption affects the costs of the features. It may be that Verizon has assumed that all 26 available features are used on all lines. This assumption may have inflated the software costs Verizon had to pay, thus overstating the features costs.

IV. CONCLUSION

8. The switch rates in Virginia fail benchmark comparison with rates in New York. Using state-specific minutes to compute the benchmark, AT&T demonstrated that Verizon's switch rates in Virginia are 53 percent above the switch rates in New York, even after adjusting for the cost differences between the two states that are identified by the Synthesis Model.4

9. Verizon's switch usage rates are clearly excessive. The features portion of the switch usage rates appears to be excessive and is unsupported. The Commission should reject Verizon's Section 271 application because the switch rates exceed TELRIC levels, or at least require Verizon to lower its switch rates to New York levels.

10. This concludes my Declaration on behalf of WorldCom.

4 See AT&T Comments, Pitkin Declaration, Exhibit (A) page 3 of 4.

I declare under penalty of perjury that the foregoing is true and correct. Executed on September 12, 2002.

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Chris Frentrup